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Towards a Rational Migration Policy

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Abstract: A rational migration policy has to be based on a coherent set of objectives and its instruments have to be chosen so as to best achieve these objectives. If the focus of migration policy is on the interests of the receiving country, it has to be decided, firstly, how many and what kind of immigrants are to be invited and, secondly, how many refugees are to be accepted for humanitarian reasons. The former are supposed to live permanently in the receiving country, while the latter may stay only temporarily. For the determination of these objectives, the economic and the non-economic consequences of immigration for the native population need to be analyzed. As there will be conflicts of interest, an open debate about the objectives of migration policy is necessary. In particular, it needs to be acknowledged that economic self-interest motivates, at least in part, both the critics and the proponents of immigration. Only when objectives have been agreed upon, can the appropriate instruments be chosen. Among those, the instrument of the entrance fee may play an important role, especially with regard to selecting qualified immigrants.

Keywords: migration, migration policy, refugee crisis, economics of migration, political economy of migration

1 More Heat than Light

Since the onset of the present refugee crisis in 2015 migration and migration policy have been debated intensely in Germany, but also in most other European countries. Unfortunately, this debate has so far produced more heat than light. The voices of reason are drowned by the din of the passions rising high on each side of the debate—if it deserves this name at all. It is rather short on rational arguments but very long on emotions and feelings which give rise to name-calling and mutual hostility. Maybe this is not really surprising with a subject that involves questions of cultural and national identity, of social stability, of humanitarianism and morality, of international cooperation and responsibility and, last not least, of economic interest. Because of the importance of these questions it is all the

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more problematic that migration policy as presently practiced in Germany is neither systematic nor rational. To give but one, rather conspicuous, example: Great efforts are being made for the integration of the refugees into the economic and social system of Germany—without, however, first deciding on how many and which of them are to be allowed to stay in Germany for good. It seems to be somewhat contradictory to have politicians, on one day, demand that the refugees return to their home countries as soon as they possibly can and, on another day, present some new measure to further the integration of the very people who are assumed to be leaving soon. All of which certainly looks more like muddling-through than a systematic policy. Whether this sorry state of affairs is due only to incompetence or whether there are ulterior motives for this kind of policy, I shall venture to speculate on in the final section of this article.

Unfortunately, not only the popular and the political debate, but also the scholarly debate is not all that it should be. As far as I can see, there are two main problems: Firstly, and mirroring the way migration policy is actually being conducted, migration policy and its instruments are discussed without first establishing the objectives this policy is supposed to achieve. For example, some authors (Bach et al. 2017; Hinte et al. 2015; Sirries/Vallizadeh 2017) demand investments in the training, education and integration of refugees, but treat this as an end in itself which does not seem to need any further justification. In particular, the important question of how many refugees it is in the interest of Germany to integrate in the first place is not discussed, nay, not even mentioned. Secondly, and more problematically, there is a certain pro-immigration bias in quite a few publications which, it is to be assumed, stems from the desire to reach conclusions that are seen as morally superior or the fear to seem to lend support to anti-immigration parties (Collier 2013, 25–26).¹ To be sure, this phenomenon is not specific to German academia. Borjas (2015, 968), for example, suspects that “many social scientists have indeed engaged in vigorous and strenuous workouts to ensure that they tipped the scale so that the published answer was ‘right’”. Of course, and fortunately, there are also many nuanced and unbiased publications whose authors are not afraid to confront inconvenient truths and do not shrink from unpleasant conclusions.²

It is in this vein that I shall try to reason in the present article. My main objective is to give an outline of what a rational migration policy would look like—without in any way pre-determining its objectives or its outcome. In other words,

1 The most egregious example in the German literature is Fratzscher/Junker 2015. They bend the facts to a degree that I would not have thought possible. For a penetrating criticism of this paper, see Suntum/Schultewolter 2016.

2 Here, I will refrain from giving examples lest everybody *not* mentioned be thought to be biased.

I shall try to work out the elements which are necessary for *any* migration policy, no matter its objectives, if it is to be called rational at all.³

The remainder of this article is organized as follows: In the next section I shall introduce the assumptions and premises my analysis will be based upon. In *section 3* the questions which any migration policy has to find answers to will be pointed out. Then, the insights which, hopefully, will have been gained from this discussion will be applied to the proposal which Margit Osterloh and Bruno S. Frey (2018) present in this issue of *Analyse & Kritik* (*section 4*). I conclude with some thoughts about the relation between the politics and the policies of migration (*section 5*).

2 Some Basic Assumptions

It may be as well that I should spell out the assumptions and premises on which the argument which follows is based. Some of them are methodological and, at least to economists, familiar or even self-evident. Others are normative and, as such, in need of some justification. Still others only concern definitions and the purview of the present analysis and should thus be unproblematic.

Firstly, migration policy will be analyzed from the economic point of view.⁴ This does certainly not mean that only the financial aspects of migration are to count. Rather, it means that individuals are assumed to behave rationally: Subject to constraints, such as the amount of money or time at their disposal, they will try to satisfy their preferences as far as possible; as they do so, they will react to incentives in a predictable way. The preferences need not be egoistic or materialistic, they may well concern also the welfare of others or idealistic pursuits.⁵ This concept of rationality can be applied to policies in an analogous way. A policy is called rational if, in addition to assuming individual rationality, it is devised so

³ Lest the reader be disappointed I should like to emphasize that I only intend to show what questions need to be asked and what kind of answers need to be found. I do not intend to give specific answers or detailed policy recommendations—neither for Germany nor for any other country. These would have to be based on the results of an open debate about migration policy and its objectives—a debate which, alas, has hitherto not yet taken place (see *section 5*). The present analysis will not be completely abstract, either. It will be shown that important policy implications can be derived from general economic arguments.

⁴ For introductions to the economics of migration see, e.g., Borjas 1994, Collier 2013 or Hatton 2014.

⁵ This informal explanation will suffice for our purposes. There is no need to discuss the theory of utility or the concept of utility maximization in any detail here.

as to reach a given objective in the best way possible—that is, e.g., most reliably or with the least costs or as fast as possible. Thus, the rational migration policy which this article aspires to show the way towards, would both be based on the assumption of individual rationality and establish a systematic and—in a certain way—optimal relationship between means and ends.

Secondly, following the traditional approach of economics with regard to questions of economic policy, we shall focus on the interests of the nation which is to implement our rational migration policy. This national point of view, rather than the global point of view, is adopted because the latter would seem to make sense only if there is a world government or global coordination of migration policies—conditions which, at present, are very far from being fulfilled. And as a single country cannot even try to solve the problem of migration on a global scale, it had better try to solve it on its own national scale. Thus, for example, German migration policy is assumed to be concerned with the welfare of German citizens. Having said this, I hasten to add that I certainly do not demand that we close our hearts and minds to the plight of the poor and the downtrodden in other countries. A rational migration policy need not be uncharitable or selfish—but it is the citizens of Germany, or of any other country at the receiving end of worldwide migration, who are to determine the extent of charity and altruism they want to see realized in their migration policy. The citizens of the sending countries are not to have a say in this.⁶

However, the purely national point of view is inadequate in the case of the European Union—at least if and insofar intra-European travel without border controls is to be preserved. As, in the absence of border controls, migrants are also able to move freely between EU member states (at least *de facto*), cooperation between EU members is indispensable and even a common migration policy may be needed. Purely national migration policies can only be pursued, if effective border controls are reestablished.⁷

Thirdly, we shall argue *de lege ferenda* as economists are wont to do. That is, laws, conventions and other legal norms are not regarded as hewn in stone. If there are legal obstacles in the way of a rational migration policy, then so much worse for the former—they may have to be changed or adapted. Again, I would not be misunderstood: I certainly do not advocate throwing overboard norms or institutions for each and every economic benefit, no matter how minuscule or how transitory. Rather, if there is a conflict between the law as it stands and possible

⁶ Remember that, in international law, it is the right of a state to grant asylum, but it is not the right of an individual to be granted asylum.

⁷ This proviso has to be kept in mind for the discussion of *section 3*.

economic gains which could be realized, if the law were different, then society would have to decide whether it is willing to sacrifice the economic gain for the sake of preserving the law as it is. For example, if the constitutional guarantee of political asylum in Germany were found to be incompatible with an economically rational migration policy, then there would need to be a discussion about whether Germany is or is not ready to pay the price, as it were, of this guarantee.⁸

Fourthly, I shall use the migration policy of Germany as an example—not only because I am best acquainted with the German situation but also because Germany has received the bulk of the refugees during the ongoing crisis so that the consequences of migration for receiving countries may be expected to show themselves in Germany particularly clearly. Nonetheless, the situation in other European countries is at least similar, so that lessons to be learned from the German experience may be applied there, too.

Fifthly, speaking of other European countries, I should point out that intra-EU migration will be ignored.⁹ In principle, migration policy is supposed to deal not only with South-North migration, that is, migration from developing to developed countries, but also with migration between developed countries. However, the migration between the members of the EU will be excluded for two reasons. On the one hand, it is not, at least for the time being, perceived as much of a problem.¹⁰ On the other hand, the free movement of EU citizens between the member countries of the EU is so firmly enshrined in EU law that one cannot possibly do anything about it—short of leaving the EU, that is (so much for *de lege ferenda!*).¹¹

Sixthly, and lastly, we will understand the term ‘migrants’ so as to comprise not only migrants for economic reasons but also refugees of war or asylum seekers. After all, for the receiving countries and the consequences they will experience from migration, the motives of the migrants do not matter much—if at all. Besides,

8 This kind of reasoning is rather unfamiliar in Germany. Here, the political and the public debate is dominated by legal and ethical arguments—among which the constitutional guarantee of political asylum takes pride of place. Applying economic arguments to value-laden questions is sometimes seen as inappropriate, perhaps even as indecent, but, at the very least, it will offer a fresh perspective and, hopefully, introduce more reason into the debate (see *section 5*).

9 There is one exception, though: It will turn out that intra-EU migration will have an indirect effect on migration policy (see *section 3.2*).

10 Of course, I am referring here only to the migration of EU citizens, not to migrants from outside the EU moving from one EU country to another—which is very much a problem and the reason why EU members need to coordinate their migration policies or reintroduce effective border controls.

11 All this does not mean that there are no problems at all with the free intra-European movement of people. As it applies to labour, there are important issues concerning minimum wages or welfare benefits which have to be addressed (see, e.g., Sinn 2015b, 5–6).

a clear distinction between the three groups of migrants mentioned above is in practice hardly possible—not only because it is often almost impossible to find out the ‘true’ motive of a migrant, but also because, in many cases, several motives are effective at the same time. Is a Syrian travelling to Germany via Turkey a seeker for political asylum (because he may have belonged to the opposition to Assad), a refugee of war (because, after all, he has fled the civil war in Syria) or an economic migrant (because he chose to leave Turkey where, one should assume, there was no danger to life and limb)?

3 Necessary Questions and Possible Answers

There are a couple of questions which policy makers have to come to terms with, if they want to devise a rational migration policy. Before we turn to these, let me emphasize that the particular sequence of questions to be presented below need not—in fact, should not—be followed rigorously in practice. It certainly makes sense to analyze different policy measures in terms of effectiveness and efficiency even before the objectives of migration policy have been decided upon so that, once a decision has been made, policy measures can be chosen according to their qualities which have been determined previously. Thus, unnecessary delays will be avoided. What is more, it may be well that policy makers should have an inkling of which means are at all feasible—lest they adopt ends which cannot possibly be reached.

3.1 Do We Need Migration Policy at All?

Although this question is very often taken as to admit of only one answer—to wit, the affirmative—, one ought to consider the alternative at least briefly—if only to become aware of the *raison d'être* of migration policy. After all, if we accepted the principle of the free movement of people *globally*, that is, if people were perfectly free to migrate to whatever country they wish to, then there would be no need for migration policy at all—albeit some sort of integration policy would seem to be necessary.

This idea is not so outlandish as it certainly looks at first sight. In fact, there are brave souls who take this idea very seriously. They claim that the gains from reducing or even eliminating barriers to migration “are likely to be enormous, measured in tens of trillions of dollars” (Clemens 2011, 87). They have a point in that welfare on the global scale will be increased, almost by definition, insofar as bar-

riers to the free movement of people are removed—just as in the case of barriers to the movement of capital or to free trade. This results mainly from the much higher productivity which migrants are assumed to reach in developed countries where their labour will be combined with the advanced technology and the superior infrastructure of these countries. Nonetheless, there are reasons why it is doubtful whether these huge economic gains really exist and, even if they do, whether they would (or should) be realized. Firstly, unrestricted migration will also cause costs which must not be ignored (Borjas 2015): Most obviously, the purported economic gains can only be fully realized if there is a migration of billions (*sic!*) of people from the developing to the developed countries which will involve considerable translocation costs. Furthermore, and more importantly, it is hardly probable that a huge inflow of foreign people will leave the infrastructure of the receiving countries unaffected—in particular, because “the ‘bad’ organizations, social models, and culture that led to poor economic conditions in the source countries in the first place” (Borjas 2015, 968) will probably be imported, at least to some degree. With the North’s production function thus liable to a change for the worse, and with translocation costs not being negligible, it is not at all certain whether the net economic effect of unrestricted migration would really be positive. Secondly, even if it were, one would hardly expect to see it realized: Due to the enormous expansion of the labour supply in the receiving countries, and the concomitant downward wage pressure, many of the native workers in these countries would stand to lose from unrestricted migration. For them it would probably be small comfort to know that their losses would be more than compensated by the gains of the immigrants. And since the receiving countries will make their decisions as to how much migration to allow with a view to the interests of their citizens, they will probably not be willing to impose burdens on their native populations for the sake of would-be migrants from other countries—which is as it ought to be, after all. In fact, as long as there is no world government, analyses of the global welfare effects of this policy or the other are incompatible with political reality and therefore mostly irrelevant for policy purposes—no matter how interesting they may be from a theoretical point of view.

Therefore, we can safely assume that the first question we propose to ask will be answered in the affirmative—so that, having the need for *some* migration policy now established, we can proceed to questions of more immediate political relevance.¹²

¹² Note that it would be not irrational for a country of the North to permit unrestricted immigration. But it would show such a high degree of altruism (or naivety?) that I should think it highly unlikely. “[T]he wilder shores of libertarianism and utilitarianism” (Collier 2013, 246) are, after all, but sparsely populated.

3.2 What Are the Objectives of Migration Policy?

For any migration policy to be rational, there need to be clearly defined objectives. Otherwise, how could the instruments of migration policy possibly be chosen rationally? It would seem that the objectives of migration policy are to be determined by the answers to two questions: Firstly, how many and what kind of migrants do we want? And, secondly, how many migrants are we willing to accept for humanitarian reasons?

The first question concerns the self-interest of the receiving country. Immigration may rejuvenate greying societies, thus stabilizing the system of social security, may provide skills that are absent or in short supply, may alleviate shortages of certain kinds of labour, may lead to more innovation due to new ideas or different perspectives and may give some kind of impetus to society in general because of greater diversity. Therefore, a country may well decide to invite a certain number of immigrants with certain desirable qualities to come and live in this country for good—with the idea, of course, of the newcomers working, paying taxes and social security contributions, integrating into society in general and, finally, becoming citizens.¹³

The second question is about how altruistic or humanitarian a society wants to be. To how many seekers of asylum from political persecution, refugees of war or people fleeing natural catastrophes are we ready to offer shelter and protection? This translates, of course, into another question: How much are we prepared to spend on these humanitarian purposes? After all, this second group of migrants, in contrast to the first, does not so much contribute revenue as cause expenses—at least on average. Once the permissible total number of refugees has been decided upon, an annual quota can be calculated from this number and the average length of stay.¹⁴ It follows that there is yet another decision to be made: How long will refugees be allowed to stay? As long as they wish or only until they can safely return? In the latter case, the money set aside for humanitarian purposes would go further in terms of alleviating misery and suffering than in the former, because

13 It is here that the indirect consequences of intra-European migration come into play (see section 2): Members of the EU more or less have to accept the number of migrants from other EU countries as given. Therefore, migration policy can only be concerned with the desirable surplus immigration (if any), that is, the number of immigrants one would like to come *in addition* to those from other EU countries that are coming anyway. In what follows this complication shall be neglected.

14 None of these numbers must be thought of as fixed for all time. When there are more crises or catastrophes we might be ready to open our hearts and our purses wider than when there are fewer of them. And insofar as refugees stay shorter or longer than expected, the annual quota would have to be modified accordingly.

more people from regions in which new crises might have flared up would be allowed to come, if those who had come before, had left for their home countries than if they had stayed put.¹⁵ Therefore, it would seem appropriate that refugees be only allowed to stay until the reason of their being refugees in the first place does no longer exist. This is not unreasonable because wishing to help people displaced by war or natural catastrophes does certainly not imply an obligation to let them permanently live in the country granting them asylum. Wars and natural catastrophes do not last forever and when they have run their course there is no reason why refugees should not return to their home countries—no reason, that is, from a humanitarian or legal point of view (that the refugees themselves might have very good reasons for wishing to stay in their host countries is an altogether different question). However, migrants who seek asylum from political persecution may well have to stay a long time: Somebody, for example, who defects from North Korea will probably never be able to return. But these cases do not seem to present a major problem: They are very few in number and the refugees in this group are mostly well-educated; therefore, they may well turn out to represent a gain for their host country in the end.¹⁶

This example goes to show that there are interdependencies between the two groups of migrants—which shall henceforth be referred to as ‘immigrants’ and ‘refugees’, respectively. It is perfectly possible that migrants who come as refugees have valuable qualifications and are employable so that they may be given the option to join the first group.¹⁷

Now, in order to make all these decisions, which are to constitute the objectives of migration policy, it is absolutely necessary that the consequences of the different alternatives be analyzed and discussed. For the sake of the discussion, let us assume that it is possible to distinguish clearly between the two groups of

15 There are still other trade-offs: The more generously refugees are being treated, the fewer of them can be taken care of with an eleemosynary fund of a certain size. In other words: Are we to pamper the few or to provide only the essentials to the many? Furthermore, humanitarian help may also take the form of development aid or disaster relief in the countries affected—instead of allowing their citizens to migrate to other countries. The question of which kind of help is more effective or more efficient cannot be discussed here. But it ought to be pointed out that it is not the very poorest or those most in need of help who set out on journeys for other countries but the ‘middle class’; the very poor cannot afford to travel (Collier 2013, 252).

16 In Germany, for example, less than 1% of all applicants for asylum are recognized as victims of political persecution to whom is granted the special protection of sec. 16a of the German constitution. And even among those, there will be quite a few who may be able to return home sooner or later.

17 In principle, any such transfer would imply that, in the next period, one immigrant less and one refugee more will be admitted.

migrants, to limit the size of each group to the respective level which has been agreed upon, and to prevent the members of the second, ‘humanitarian’ group to overstay their temporary residence permits.¹⁸ What, then, would be the consequences of admitting a certain number of migrants—some of them for good, some of them only for some time?

Let us first turn to the first group, the group of immigrants who are invited to live permanently in their country of destination. There will be economic and non-economic consequences. The former will be of four different kinds—which are all, as we shall see, related to one another: Firstly, the newcomers will compete with the natives on the markets for consumer goods. In case of inelastic supply this will lead to rising prices and thus to losses to the natives. This phenomenon can be expected to occur especially in the housing market. Depending on the purchasing power of the immigrants, prices and rents of certain types of housing will go up. The lower their skills (and thus their wages), the cheaper will be the apartments and houses they are able (and willing) to afford—and the more will native low-income households be negatively affected. The same is true in the case of public housing: The more immigrants are eligible for public housing, the more they will compete with native low-income households and the more the chances of the latter to get into public housing will decrease. In the case of other publicly provided goods there will be congestion externalities: Schools, parks, public baths or roads will get more crowded so that the natives will experience utility losses (Sinn 2015a). The case of schools will be particularly problematic, since increasing class-size and the language deficiencies of first-generation immigrant children will lead to worsening learning conditions for native students—unless new schools are built and new teachers are hired. This problem will primarily affect the children of natives who live in the same neighbourhoods as the newcomers since, as a rule, children will attend the schools of the neighbourhoods they live in.

Secondly, the income distribution will be affected.¹⁹ The influx of immigrants will expand the labour supply so that the average wage can be expected to fall and the return to capital will rise. Thus, there will be a redistribution from labour to capital—in any case, as long as the capital stock remains constant. In the long run, insofar as firms adjust to the entry of new workers into the labour market by expanding the capital stock, this development will be reversed again. But owners of capital will not only profit because of the, probably short-term, increase in the rate

¹⁸ The practical problems of implementing this policy will be discussed in *section 3.3*. Note that it is not assumed that, among the applicants for asylum, those most in need can be identified.

¹⁹ This is one of the main—maybe even *the* main—subject of the economics of immigration (see, e.g., Borjas 1994; 1995; 2014, ch. 3; Collier 2013, ch. 4; Edo et al. 2018, 5–14).

of return to capital but also—and more importantly, though outside the purview of standard labour market models—because their position in negotiations with trade unions will be strengthened.²⁰ Not only the average wage, also the wage structure will be affected by immigration—depending on the relative skills of immigrants and natives. Generally, native workers who compete with immigrant workers, because they have similar skills, will see their wages reduced, whereas native workers who are complements to immigrant workers will enjoy rising wages. Therefore, if immigrants are low-skilled, native low-skilled workers will suffer, whereas high-skilled natives will profit—and vice versa in the case of well-qualified immigrants. In contrast to the change in the average wage, the change in the wage structure will be permanent—or last as long as the skill profiles of immigrants and natives have not completely assimilated. This is what standard economic theory predicts and these predictions are borne out by most empirical analyses.²¹

Thirdly, there will be consequences for the public finances. Immigrants may contribute to the government's coffers or they may be a drain on them—depending on whether or not the taxes and social security contributions they pay exceed the costs of the welfare benefits and public services they enjoy. The net fiscal impact of immigration can be assessed by the method of generational accounting (see, e.g., Bahnsen et al. 2016; Edo et al. 2018, 22–23): An intertemporal budget constraint is assumed and the present values of both public debt and future primary surpluses are calculated. If the intertemporal budget constraint is violated, that is, if the present value of future primary surpluses is less than the present value of public debt, a fiscal sustainability gap results which must be closed by either raising taxes or cutting expenses. Insofar as immigration leads to a widening of the sustainability gap, it has a negative fiscal effect because the fiscal burden on the coming generations of natives will become heavier; and if the sustainability gap is narrowed, the fiscal effect of immigration will be positive, because natives will be relieved in the future. Obviously, the fiscal effect of immigration depends a lot on the qualifications and skills of immigrants. The higher their skills and the better qualified they are, the more likely they are to earn high wages and, thus,

20 It is no wonder then that commercial interests are very much in favour of immigration (see, e.g., World Economic Forum 2013).

21 See the literature quoted in footnote 19. There are a few analyses which reach different results. For example, Foged/Peri 2015 find that low-skilled native workers in Denmark experienced wage rises after the immigration of low-skilled foreigners. The Danes, it seems, reacted to immigration by pursuing other, less manual-intensive occupations which paid higher wages. Note, however, that this climbing up the wage ladder in many cases only took place after Danish workers were induced to leave their hometowns, presumably because of the downward wage pressure exerted by the immigrants. I am not at all sure whether this really qualifies as a success story.

the more likely it is that the revenue they contribute will be higher than the costs they cause.

Fourthly, there may be long-term growth effects which will depend on the qualification of the immigrants: The better qualified they are, the more productive they will be and the more income they will generate.

Immigration will also produce non-economic consequences. It leads to higher diversity—culturally, ethnically, religiously and socially. Depending on the natives' preferences this may be seen as an advantage or a disadvantage. While some may like to live in a multicultural society, others may feel uneasy or even threatened. But there is more to consider than just the 'taste' of the natives. Increasing diversity will to some degree affect the body politic and the cohesion of society. While a little diversity probably will do no harm, nay, may even do some good, diversity may become excessive—in the sense that it undermines mutual trust or complicates political decision making. All of this will have economic repercussions of one kind or another.²² There is no clear relation between diversity on the one hand and growth or efficiency on the other (Alesina/La Ferrara 2005; Collier 2013, ch. 3; Mueller 2009, ch. 12); higher diversity *per se* does not produce economic gains (as, e.g., Rinne et al. 2011 claim). The preferences of the natives with regard to diversity and the political and economic consequences of diversity are interdependent: The more the natives dislike diversity, the more harm (or the less good) a given degree of diversity will do.²³ It follows that receiving countries may select the immigrants they wish to invite not only on the basis of their job skills or educational achievements but also on the basis of their cultural, linguistic, religious or ethnic characteristics.

As regards the second group of migrants, the refugees, there are also economic and non-economic consequences. First of all, there are the immediate costs of sheltering and otherwise caring for the refugees. These will be borne by taxpay-

22 That is why the economic and the non-economic consequences of immigration cannot be clearly distinguished and had perhaps better be called financial and non-financial consequences. Strictly speaking, there are *no* non-economic consequences: The utility which some aficionado of multiculturalism gains when an Arab grocer opens shop in his neighbourhood or the disutility which some devout Christian suffers when he is made to listen to the calls of the muezzin from a mosque set up next to his house are every bit as economic as (though harder to quantify than) the utility or disutility due to higher or lower wages.

23 One of the basic methodological tenets of economics is to accept individual preferences as given. Therefore, also the attitudes and preferences towards diversity ought to be accepted as they happen to be. In the public discourse we can often observe that preferences which deviate from one's own are deprecated as prejudices. Economists *qua* economists ought to abstain from such a behavior; and they also have no business trying to 'improve' or otherwise change other people's preferences—as, for example, Hansen/Legge (2016, 31) propose to do.

ers in general so that the distributional consequences of raising revenue to cover the expenses for the refugees will be the same as those of any other public expenses and depend on the incidence of the tax system. In addition, if refugees are permitted to work and to live outside of shelters, there will be, in principle, the same economic and non-economic consequences as with the group of immigrants. These consequences will, obviously, vary in proportion to the number of refugees admitted and to the average length of their stay: The shorter they stay, the less likely they are to enter the labour or the housing market in a serious way, to start families and, in general, to leave cultural or ethnic 'footprints'.

In the light of the above, then, let us have a look at the consequences of the recent refugee crisis for Germany.²⁴ In 2015 and 2016, during the height of the crisis, more than 1,164,000 refugees were registered in Germany. In the following year, there were still more than 198,000 first-time applicants for asylum. In 2018, so far, the monthly average has fallen to about 14,000 (Bundesamt für Migration und Flüchtlinge 2018). Nonetheless, an end to the refugee crisis is nowhere in sight: If present trends continue, there will be considerably more migrants who come to Germany than who leave for their home countries—if only because those who are already here will have their family members join them. Not only the sheer quantity of migrants is problematic—but so is also their, as it were, quality. They are mostly low-skilled and poorly qualified—both in comparison to Germans and to foreigners already living here. That is why the newcomers cannot be expected to alleviate the shortages of qualified labour that are observed in certain sectors of the German economy. For the same reason, insofar as these migrants enter the labour market, they will only be able to earn rather low wages. Consequently, they will be looking for cheap housing and settle in poorer neighbourhoods where their children will go to school, too: There will be additional demand for public housing, the rents of cheap apartments will go up and the schools in poorer neighbourhoods will become more crowded—all of which will, for the reasons given above, worsen the socio-economic situation of low-skilled, low-income natives.

By the same token, it is they who will suffer from the downward wage pressure due to the increased competition among low-skilled workers. If and insofar as minimum wage legislation will prevent the 'official' wages from going down,

²⁴ For a more detailed discussion of these consequences, see Söllner 2018. Note that, because of the unsystematic character of German migration policy, there is no clear distinction between refugees and immigrants. Although refugees are supposed, *in principle*, to return to their home countries, many of them will become immigrants *de facto*. Therefore, in what follows it is assumed that refugees stay not only for a short term but, in most cases, for a long term or even for good. Furthermore, as it is not at all clear whether all those who arrive as refugees are really refugees or, rather, economic migrants, the more general term 'migrants' will be used.

there will either be more unemployment among minimum wage workers or the minimum wage will in one way or another be ‘hollowed out’ so that actual wages will sink after all. And, of course, low wages above the minimum wage will probably decrease in any case. On the other hand, there will also be winners: Owners of capital and natives whose labour is complementary to that of the migrants, that is, high-skilled natives, will profit—because the rate of return to capital and the wages for non-manual labour will increase (the former only temporarily, the latter more or less permanently). Furthermore, members of these groups typically employ household labour and will also be better off because the wages of nannies, gardeners or charwomen can be expected to fall.

The long-term fiscal costs of the refugee crisis will be considerable, too: Even with optimistic assumptions the net fiscal costs will amount to € 878 billion or 30.1% of gross domestic product (Bahnsen et al. 2016).²⁵ It goes without saying that the German system of social security will by no means be stabilized by the migrants; on the contrary, it will become more and more strained.

To summarize: In all probability, the refugee crisis will produce no positive growth effects (except, maybe, in the very long run) whereas there will be significant negative distributional effects. One may even speak of a *dilemma of integration*: The better and faster the migrants will be integrated, that is, the more of them will enter the labour and the housing market, the more unequal the distribution will become.

There will be non-economic consequences, too: Diversity has increased, but it is still too early to say what will result from it in the end—whether or not its positive effects will outweigh its negative effects.

The example of the refugee crisis in Germany throws into stark relief the problem of determining the objectives of migration policy. Among the natives there will be losers and there will be winners of immigration—and who will belong to which group will depend on the migration policy adopted. Different groups of people will have different interests and it will not be easy to reach anything even remotely resembling a consensus. In a nutshell, the different economic interests will look as follows: Owners of capital will always profit from immigration; high-skilled workers will benefit from the immigration of low-skilled labour, whereas the immigration of high-skilled workers will be to the advantage of native low-skilled workers.²⁶ The different ways people are affected will in turn affect their

²⁵ The method of generational accounting was used to estimate this percentage. Thus, it indicates the amount by which the *present value* of the financial sustainability gap has increased because of the refugee crisis (see above).

²⁶ Only in one case would there be no conflict of interest: If immigrants were *very* high-skilled, that is, had qualifications and skills which could nowhere be found among the natives, the in-

preferences about and attitudes towards immigration. It comes as no surprise, at least not to economists, that, as a rule, people tend to favour immigration the more they stand to gain from it and the less they stand to lose from it (see, e.g., Mayda 2006; Söllner 1999):²⁷ The explanation of different attitudes towards immigration in terms of economic self-interest is in no way invalidated by findings that establish a positive correlation between the level of education and the willingness to welcome migrants (see, e.g., Edo et al. 2018, 26–27; Hainmueller/Hiscox 2007; Hainmueller et al. 2014). In the present situation, where most would-be immigrants are poorly qualified, immigration would tend to increase the supply of low-skilled labour which, in turn, would be to the advantage of higher-skilled natives. And, of course, it is the well-educated who are higher-skilled and earn high wages...

It is certainly true that the attitudes towards immigration are also motivated by concerns about too little or too much diversity (which itself has economic implications, as we have seen) or even by pure altruism or outright xenophobia. However, “[n]on-economic factors do not seem to alter significantly the results of the economic explanations” (Mayda 2006, 510). There are studies which have reached different results (see, e.g., Brunner/Kuhn 2018; Card et al. 2012; Hanson/Legge 2016) so that the relative importance of economic and non-economic factors is not uncontroversial. What seems to be uncontroversial, though, is that both kinds of factors are operative in the formation of, as it were, ‘immigration preferences’.

Therefore, we can conclude, firstly, that the determination of the objectives of migration policy will be subject to a conflict of economic interests and, secondly, that these conflicting interests are, at least to some extent, behind the different attitudes towards immigration. The main obstacle in the way of establishing a rational migration policy seems to be the formulation of the objectives of such a policy which will only be possible if interests are balanced and, thus, conflicts are resolved. Devising instruments and measures to realize these objectives, when they finally will have been agreed upon, will be rather less difficult. Assuming for now that objectives have been determined, we shall move on to discuss the instruments of migration policy.

digenous population as a whole would profit. But this is a theoretical case only—especially in the present situation of massive migration from South to North.

²⁷ In principle, utility maximization does not presuppose egoistic and selfish preferences. For all practical purposes, however, it is appropriate to assume that people focus on their own well-being.

3.3 What Instruments Are to Be Used?

If our basic premise is accepted, to wit, that a country's migration policy is to be shaped according to the interests of this country, then one conclusion is inescapable: It has to be the receiving country that makes the decision about who may and who may not come to and live in it, either temporarily or permanently. This, in turn, has two important implications: Receiving countries have to see to it that their frontiers are as secure and as impenetrable as they can possibly be so that only those migrants who are permitted to enter actually do enter.²⁸ And, as borders cannot be sealed hermetically, so that there always will be uninvited guests, it must be possible to repatriate them without much delay. If these two conditions are not met, any migration policy will be more or less moot, because the extent of immigration will then not be determined by any such policy but by the migrants themselves—to whom a not unimportant part of national sovereignty will thus have been surrendered. It is obvious that these conditions are currently not met in Europe: Not only are European borders not sufficiently protected, it is all but impossible to repatriate illegal aliens in sufficient numbers and sufficiently fast.²⁹

It stands to reason that the legal framework governing migration is, literally, not up to date anymore. Conventions that were joined, laws that were passed and rights that were granted at a time when migration was a tiny fraction of what it is now cannot really be expected to be appropriate and adequate for the new reality of mass migration. It is beyond the scope of the present article to discuss in any detail the legal changes which may be required for and the various possible instruments and measures which may be used by a rational migration policy. However, at least the barest outlines of what seems to be required by such a policy shall be sketched briefly.

Let us first turn to the migrants to whom refuge is to be offered for humanitarian reasons. When it comes to deciding who will be and who will not be accepted as a refugee, two inconvenient truths have to be faced: Firstly, no matter how generous a host country will be, there will always be more migrants looking for asy-

²⁸ For the importance of secure borders for liberty see, e.g., Sinn 2016.

²⁹ There is no reason, in principle, why this should be so. For example, the repatriation numbers of the United States, even during the Obama administration, far exceed the paltry European numbers: Between 2008 and 2016 US Immigration and Customs Enforcement managed to 'remove' (as they call it) on average more than 346,000 aliens per year (Immigration and Customs Enforcement 2017).

lum than this country will be prepared to welcome.³⁰ Secondly, it is well nigh impossible to ferret out the true motives of migrants applying for asylum. As a rule, it will neither be possible for the applicant to conclusively prove that he is a victim of political persecution or a refugee from war, nor will it be possible for the host country to definitely disprove any such claim. Thus, any asylum system is liable to abuse (Becker 2011, 48; Collier 2013, 160–161). To make sure, as far as possible, that only those migrants choose to apply for asylum who are in truth refugees, disincentives ought to be created which deter economically motivated migrants from abusing the system of asylum. “It is human nature—responding to incentives—to move to a country and get a lot of benefits, such as welfare benefits.” (Becker 2011, 25) Therefore, one might take into consideration reducing welfare benefits for refugees to the humanitarian minimum so that they are no longer attractive for migrants (or, at least, much less so), but at the same time still sufficient for the maintenance of those who are granted asylum (Söllner 2017). Furthermore, it ought to be made absolutely clear that those allowed to live in a host country for humanitarian reasons are allowed to do so only temporarily. They will be clothed, fed, sheltered, provided with health care, and their children will be educated—but always with the view of their returning to their countries in the not too distant future. Therefore, efforts for integration need not—and, indeed, must not—be made and, in general, refugees ought to be allowed to work only to a limited extent, for example doing some public sector jobs like cleaning up parks or teaching refugee children.³¹

On the other side, it is obvious that the migrants belonging to the first group, that is, those who bring economic benefits to their countries of destination, are to be integrated as well and as fast as possible. They are to be allowed to work immediately and they are to be entitled to receive regular welfare benefits—either on entering the receiving country or after a relatively short waiting period. What integration ought to look like exactly, cannot be discussed here. I shall only mention that there is evidence that ‘assimilative’ integration seems to be more successful than ‘multicultural’ integration—contrary to what one might have expected (Koopmans 2017).

30 Of course, this will not be true, if there is no upper limit to the number of refugees to be admitted. But then we are back to square one—because then, for all practical purposes, any effective migration policy would be impossible.

31 Remember that refugees with valuable skills may be given the opportunity to change their status from ‘refugee’ to ‘immigrant’ (section 3.2). Of course, these refugees will be allowed to take up work without any restriction. Remember also that refugees are supposed to leave for home sooner or later. Therefore, their non-integration will cause no problems—which it certainly would, were they to stay permanently.

But how are the receiving countries to select these citizens-to-be? If and when a consensus is reached about their number and their qualifications, what can be done to ensure that those and only those migrants are invited who are actually welcome? For this purpose, different instruments have been proposed: point-based systems like those currently used in Australia, Canada and New Zealand, auctions and entrance fees.³² Entrance fee systems have been suggested by, for example, Becker (2011), Becker/Lazear (2013) and Osterloh/Frey (2018). It is the Osterloh/Frey proposal that we now shall turn to.³³

4 The Osterloh/Frey Proposal and Its Merits

Since the proposal by Osterloh and Frey is published in this issue of *Analyse & Kritik*, I need describe it only very briefly before discussing its merits. When quoting this article, I shall refer only to page numbers.

4.1 A Short Outline of the Proposal

Osterloh and Frey find fault with the present migration policy in Europe and demand that, firstly, migration be managed better and, secondly, integration be improved (201–210). To this end, they propose to introduce an *entrance fee*: Every immigrant willing (and able) to pay this fee would be admitted and be permitted to enter the labour market immediately (210). Thus, the right to live and work in a country is conceived of as the membership of a cooperative or a club.³⁴ Refugees would not have to pay this fee or, if they had already done so, would be reimbursed after having been granted asylum (210).³⁵ The revenue raised by charging this fee would be used to further the integration of the immigrants (211). According to Osterloh and Frey, this scheme would have many advantages: First of all, migrants who only intend to collect welfare benefits would be deterred and those paying the fee would be motivated to work and to integrate themselves into the society

³² Visa lotteries are—obviously—out of the question, as, by design, they are not selective.

³³ Curiously, Osterloh/Frey 2018, 219, quote Becker 2011 as suggesting an auction system, although, in this publication, he put forward an entrance fee very much like the one they themselves propose.

³⁴ Would immigrants have to pay the regular entrance fee also for any family members they might want to bring in? The authors do not consider this question.

³⁵ It remains unclear, though, whether refugees would or would not be allowed to work and whether they might stay permanently or only temporarily.

of the receiving country (211–212). Furthermore, receiving countries would save money on border security since, with the opportunity to immigrate legally, illegal immigration would become both unnecessary and unattractive (211). The money thus saved could and should also be invested into integration (211–212). Migration would become much safer and much less dangerous since migrants could now use regular travel routes and means of transport (214). Last not least, migrants would not be subjected to lengthy asylum procedures and the uncertainty of not knowing whether they will or will not be allowed to stay. It is they who would make the decision about their status—by either paying or not paying the entrance fee (214). The authors claim some other advantages for their proposal which, being of less importance, shall not be discussed here.

4.2 Too Good to Be True?

The proposal of Osterloh and Frey is not without merits but, alas, it is not as advantageous as they make it out to be. Our discussion of their proposal will focus on economically motivated migrants, because it is they whom also the authors pay most of their attention to.

As regards the first of the alleged strengths of their entrance fee system, it is instructive to have a closer look at the decisions a would-be immigrant faces. He compares the costs and the benefits of immigration and decides to immigrate into another country, only if the latter exceed the former. In a (very) simple model the costs would comprise only the entrance fee and the travel costs, whereas benefits would take the form of non-financial and financial benefits. Non-financial benefits would be due to the consumption of collective goods (such as infrastructure, education or health care) in the receiving country and financial benefits would consist of wages to be earned or welfare benefits to be collected in the receiving country. In estimating these financial benefits, would-be immigrants would, of course, assume optimizing behavior on their part; that is, they would imagine themselves maximizing financial benefits when living in their potential receiving country. This implies that they would plan to work or, instead, to collect welfare benefits or, perhaps, to do both, according to how they could maximize their income. Crucially, this maximizing behavior would be totally independent of whether an entrance fee would have been paid or not. Having once been paid, an entrance fee would be treated as a sunk cost, it would be completely irrelevant for the decision whether or not to work. Therefore, contrary to what the authors assert, there would be no incentive to work and integrate as fast as possible because of the entrance fee. Any such incentive there might be would be due to the immigrants being permitted to enter the labour market immediately—which per-

mission is, in principle, unrelated to the entrance fee. However, I hasten to add, the entrance fee would provide *some* incentive: Although not affecting behavior *after* immigration, it most certainly would influence the decision whether or not to immigrate in the first place. The higher the entrance fee would be, the less probable it would be that migration benefits would exceed migration costs and, in particular, the less probable it would be that the financial benefits of welfare would suffice to tip the balance in favour of immigration. For example, if the entrance fee were at least as high as the maximum amount of welfare benefits a migrant could possibly collect in his lifetime, only persons who are employable and could earn wages above the level of welfare would consider immigration. This would seem to imply that the entrance fee be set quite high so as to attract only high-skilled immigrants from whom the receiving country might expect to profit most.³⁶ In fact, this is the approach of Becker (2011) whose focus is on the interests of the receiving country. Osterloh and Frey, in stark contrast to Becker, also want to take “humanitarian aspects” into account and think the amount of \$ 50,000 which Becker suggests as being way too high (217). In setting the entrance fee, there would be an obvious conflict: The more you indulge your humanitarian impulses, the lower the entrance fee will be and, therefore, the less selective it will be.³⁷ This in turn means that it would deter migrants less from immigrating only because of welfare benefits and it would produce fewer economic benefits for the receiving country.³⁸ It seems that this conflict is inescapable as long as you, as it were, try to kill two birds with the same stone. You can hardly expect an instrument like the entrance fee both to work for the good of the receiving country and to serve humanitarian purposes. It would be more appropriate to strictly separate the two objectives, as we have hitherto done in our discussion. And since the authors do not leave a doubt that refugees still are to be granted asylum without having to pay an entrance fee, there is really no need for them to overburden their instrument with objectives the laws of asylum are better able to take care of.

36 It must be mentioned that financial instruments of migration, such as entrance fees or auctions, are not able to guarantee that only the most capable or most worthy migrants are selected: Not only people with the potential to earn high wages could afford to pay the price demanded—but also corrupt officials or drug dealers who might want to enjoy their ill-gotten gains in first-world countries. But these cases would probably be far and between.

37 Whether a lower fee would translate into lower revenue would depend on the price elasticity of demand for ‘club membership’.

38 In the view of the authors this conflict does not appear to be that serious: They expect low-skilled migrants to take over menial jobs from natives who then would be free to do higher-paying jobs. In the process, total productivity, and thus economic welfare, would be increased (212). This outcome is certainly not impossible. But it relies on certain assumptions, which cannot be taken for granted, and is not what standard economic theory would have you expect.

This brings us to the second purported advantage of the Osterloh/Frey proposal—the savings due to the border regime not having to be so strict anymore. I am afraid these savings would not materialize—quite the contrary. The authors, I am sure, would be the first to admit that a market (*any* market) only works if there is an appropriate institutional framework to support it: Why would you pay for a good, if you could simply take it away from its owner with impunity? And why would you pay an entrance fee, if you could get into another country without paying? In fact, there are two possibilities to get around the entrance fee: to try to immigrate illegally and to claim asylum. Without strict border controls to ensure that only those who pay the entrance fee are let in, there would be so many free riders as to make payment of the fee the exception rather than the rule. And if there is the possibility to be granted asylum, so that you could live legally in the host country without paying the fee, there is a very strong incentive to apply for asylum—even if there is no real reason for doing so. This, in turn, means that there will still have to be a bureaucracy for evaluating and deciding all those asylum applications.

And this is why, finally, also the authors' third claim—that an entrance fee would lead to more safety and less uncertainty for migrants—has to be taken with more than just a few grains of salt. Insofar as migrants try to enter illegally, they will still have to use dangerous routes, and insofar as they intend to apply for asylum, they would still be left in limbo as long as their applications would be processed. Obviously, the incentive to evade the entrance fee in either of these ways would be the stronger, the higher the fee would be—so that there would be another conflict: The lower the fee, the more you could save on border security and asylum bureaucracy—but, again, the less selective the fee would be.³⁹

Let me finish this discussion of the Osterloh/Frey proposal by briefly comparing it to an auction system. The authors see a lot of differences and, not surprisingly, deem the entrance fee to be superior (219). However, both instruments are very much related and there is but little difference between them. With an entrance fee, you set the price and, depending on demand, some quantity will result, while with an auction, you set the quantity and, again depending on demand, some price will result. Under conditions of perfect information, both would be completely equivalent: Auction price and entrance fee would be identical and, thus, both would lead to the same number of immigrants and produce

³⁹ Another question which needs to be answered is the following: If illegal aliens are captured or if asylum claims are found to be unjustified, will the cheaters be expelled without much ado or will they still be offered the opportunity of paying the entrance fee and of thus legally obtaining 'club membership'? If the latter alternative were chosen, the incentive to cheat would be so much stronger.

the same revenue.⁴⁰ In reality, with imperfect information, there is always some uncertainty: When setting the entrance fee, you will not know how many visas will be bought and when determining the quantity of visas to be auctioned you will not know the price which will result. Insofar as price is an indicator of the migrants' skills—in the sense that higher-skilled migrants would be willing to pay a higher price—the receiving country may either control quantity (if it chooses an auction) or, at least to some extent, 'quality' (if an entrance fee is adopted) but, absent perfect information, not both. Therefore, the choice between entrance fee and auction boils down to this: What is more important for the receiving country to control: quantity or quality? From the point of view of would-be immigrants, the entrance fee might be preferable because, for them, there would be less uncertainty: Knowing the price, they can be certain to be admitted if they are ready to pay it.

All in all, the entrance fee is certainly an instrument that deserves to be considered in any serious discussion of migration policy. But, equally certainly, it is not so far superior to other instruments as to be a panacea.

5 The Politics of Migration Policy

Let me come full circle and return to the observations made at the beginning of this article. Perhaps our discussion has shone some light on the question why it is that in Germany the political debate about and the actual policies of migration are so very far from rational—at least from rational in the sense in which we have been using this adjective.

It seems that at least part of the answer has to do with the unwillingness of most politicians to confront the inescapable facts and the inconvenient truths of migration. This attitude manifests itself, for example, when they pledge allegiance to the constitutional right to asylum or the Geneva Convention on Refugees, but refuse to admit openly that the humanitarian principles enshrined therein can be adhered to only at a considerable cost. Being not only insincere but also deeply hypocritical, they praise and defend these rights of refugees while, at the same time, they do everything to prevent refugees from getting to Germany and exercising these very rights.

In this way, it is tried to avoid a thorough discussion of migration—a discussion in which each and every aspect would have to be examined and which, there-

⁴⁰ Revenue will only be identical, if all successful bidders of an auction have to pay the same price, to wit, the offer of the marginal bidder (the bidder who makes the lowest accepted bid).

fore, would reveal fault lines which run through society and turn the spotlight on conflicts of interest. But it seems safer to muddle through and to hope that, somehow, the migration problem will sort itself out. Thus it is that, one day, integration is touted and, the other day, rigorous removal policies are demanded—without ever putting forward any coherent set of objectives. But it is they that are a *conditio sine qua non* for any migration policy that aspires to be rational. And formulating these objectives requires exactly that painful debate politicians often shirk—a debate in which all cards have to be laid upon the table and all the different, often opposing, interests have to be discussed openly and candidly.

Presently, the migration debate is neither open nor candid. For one thing, the losers and their fears are not dealt with fairly. As we have seen (*section 3.2*), the refugee crisis will produce losers among the native population, to wit, low-skilled workers and their families. But their all too probable losses are very rarely acknowledged. Rather, if the existence of these losses is not flatly denied, they are often belittled—by holding out the vague hope of an eventual growth effect of migration sometime in the future, from which also the present losers are supposed to profit somehow. More problematic still, these losses are often, as it were, anathematized: They must not be mentioned on penalty of being accused of instigating hatred and social conflict. To give but one example, Sahra Wagenknecht, who is co-leader of the parliamentary group of the leftist party “Die Linke”, was severely attacked and accused of playing off refugees and poor natives against one another, when she dared to point out some of the negative distributional consequences the present refugee crisis incontrovertibly has (ZEIT online 2018).

But these questions at least sometimes come up in the media. In marked contrast, the fact that there are people who benefit from the inflow of migrants is almost completely ignored, nay, even tabooed. As shown above (*section 3.2*), both employers and well-educated, high-skilled employees are to be counted among the winners of the refugee crisis. And, of course, it is they who are most in favour of immigration and most ready to welcome refugees. But you will hardly ever hear or read about this relation. Could it be that the proponents of a ‘culture of welcome’ do not want to have materialistic motives attributed to them? Could it be that they like to sit on a moral high horse and look down on the plebeians and their selfishness and narrowmindedness? Be that as it may, it is certainly easier to espouse a ‘culture of welcome’, if it not only does not cost you anything but even may bring you advantages.

Perhaps economists, as the saying goes, know the price of everything and the value of nothing. But in the present situation, it very much looks as if it were easier to come to an agreement about prices than about values. Therefore, if more weight is lent to the economic aspects of migration, if arguments are couched more in

terms of costs and benefits and less in terms of right and wrong, then, perhaps, the migration debate will produce a little more light and a little less heat.

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